2.017

U.S. Small Business Administration
Management Assistance
Support Services Section

Management Aids
Number 2.017

SBA

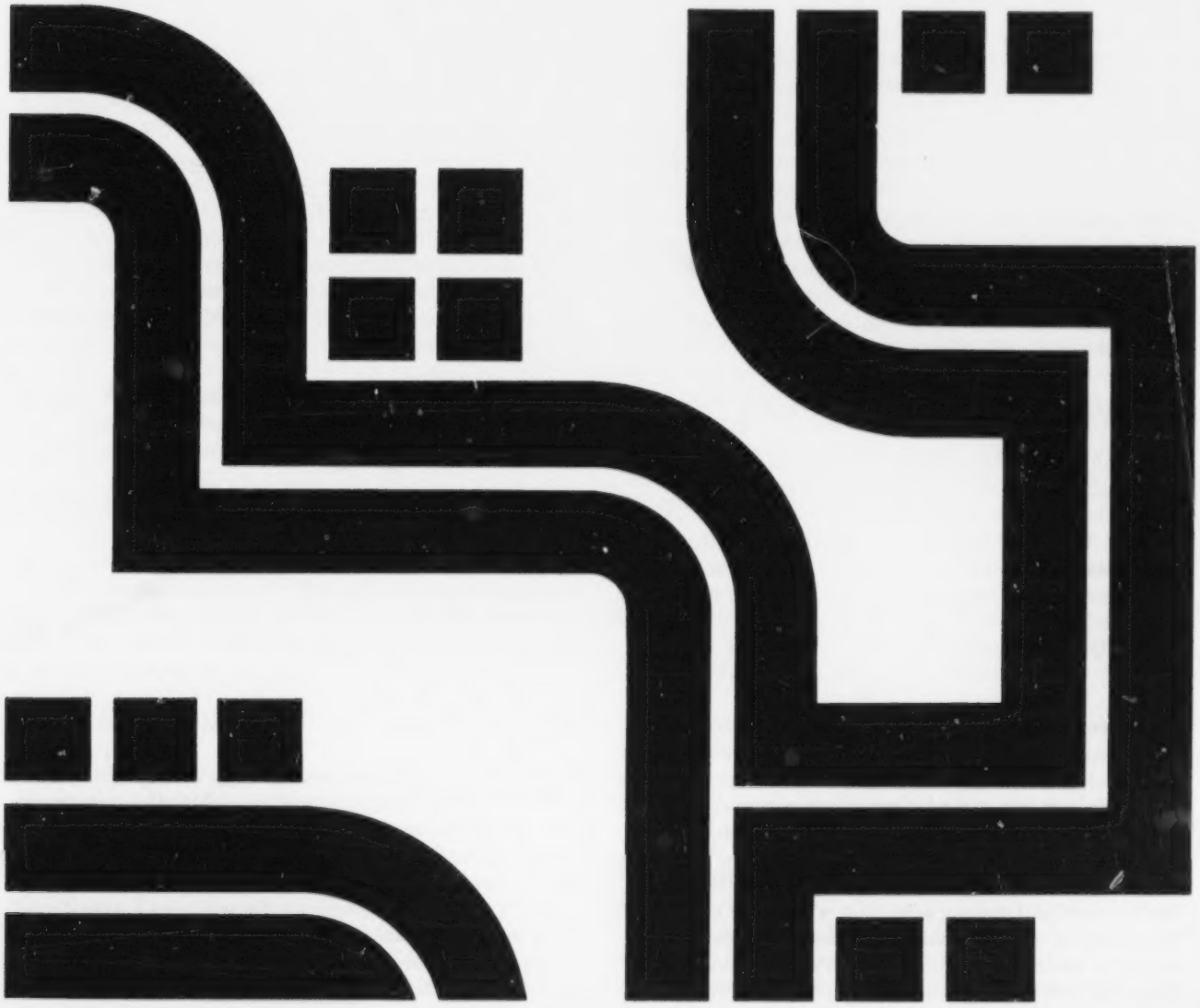
NEWARK PUBLIC LIBRARY

SEP 22 1981

U. S. GOVT. PUBS.
DEPOSITORY 376

Factors In Considering A Shopping Center Location

By J. Ross McKeever and Frank H. Spink, Jr.
ULI-the Urban Land Institute
Washington, D.C.



SBA 1.32:

First printed May 1970
Reprinted April 1980

Summary

Small marketers who seek new sites for their stores, or service shops, should add the shopping center to their lists of possible locations. When they do, however, they should be aware that the advantages of the shopping center for one type of retailing may be disadvantages for another.

The purpose of this Aid is to provide small retailers with background information so that they can decide whether to locate their stores in shopping centers should such a decision be necessary. Among other things, it discusses the landlord-tenant relationship and the cost picture. Both of these factors are more complicated in shopping centers than in other locations.

Where you locate your store is one of your most important decisions. This fact is true whether you are opening a new store, starting a second outlet, or renewing your present lease. The problem is to find the right location for the right undertaking because a location can make or break a business.

Different stores have different locational requirements. You would not put a toy store in a retirement village or start a garden supply store in a rental apartment house district. The customers you serve, the things they buy, the way they reach your store, the adjacent stores, and the neighborhood all bear upon the location. These factors must be related to the types and characteristics of shopping centers when you are considering a shopping center as a site.

Shopping Center Characteristics

Shopping centers are distinctly different from the other two major locations—that is, downtown and local business strips. The shopping center building is pre-planned as a merchandising unit for interplay among tenants. Its site is deliberately selected by the developer for easy access to pull customers from a trade area. It has on-site parking as a common feature of the layout. The amount of parking space is directly related to the retail area.

Customers like the shopping center's convenience. They drive in, park, and walk to their destination in relative safety and speed. Some shopping centers also provide weather protection and most provide an atmosphere created for shopping comfort. For the customer, the shopping center has great appeal.

For the merchant making a decision whether or not to locate in a shopping center, these "plus" characteristics must be related to the limitations placed upon you as a tenant. In a shopping center, a tenant is part of a merchant team. As such, you must pay your pro rata share of the budget for the team effort. You must keep store hours, light your windows, and place your signs within established rules.

What Are Your Chances?

Whether or not a small retailer can get into a particular shopping center depends on the market and management. A small shopping center may need only one children's shoe store, for example, while a regional center may expect enough business for several. The management aspect is simple to state: Developers and owners of shopping centers look for successful retailers.

In finding tenants whose line of goods will meet the needs of the desired market, the developer-owner first signs on a prestige merchant as the lead tenant. Then, the developer selects other types of stores that will complement each other. In this way, a "tenant mix" offers a varied array of merchandise. Thus, the center's competitive strength is bolstered against other centers as well as supplying the market area's needs.

To finance a center, the developer needs major leases from companies with strong credit ratings. The developer's own lenders favor tenant rosters that include the triple-A ratings of national chains. However, local merchants with good business records and proven understanding of the local markets have a good chance of being considered by a shopping center developer.

But even so, a small independent retailer can sometimes play "hard to get." When most spaces are filled, the developer may need **you** to help fill the rest of them.

A small businessman who is considering a shopping center for a first-store venture may have trouble. Your financial backing and merchandising experience may be unproved to the owner-developer. Your problem is to convince the developer that the new store has a reasonable chance of success and will help the "tenant mix."

What Can the Center Do for You?

Suppose that the owner-developer of a shopping center asks you to be a tenant. In considering the offer, you would need to make sure of what you can do in the center. What rules will there be on your operation? In exchange for the rules, what will the center do for you?

Even more important, you must consider the trade area, the location of your competition, and the location of your space in the center. These factors help to determine how much

business you can expect to do in the center.

In a Neighborhood Shopping Center, the leading tenant is a supermarket or drug store. The typical leasable space is 50,000 square feet but may range from 30,000 to 100,000 square feet. The typical site area is from 3 to 10 acres. The minimum trade population is 2,500 to 40,000.

In a Community Shopping Center, the leading tenant is a variety/junior department store or discount department store. The typical leasable space is 150,000 square feet but may range from 100,000 to 300,000 square feet. The typical site area is 10 to 30 acres. The minimum trade population is 40,000 to 150,000.

In a Regional Shopping Center, the leading tenant is one or more full-line department stores. The typical leasable space is 400,000 square feet with a range from 300,000 to more than 1,000,000 square feet. The typical site area is 30 to 50 acres. The minimum trade population is 150,000 or more. When the regional center exceeds 750,000 square feet and includes three or more department stores, it becomes a SUPER-REGIONAL CENTER.

The Center's Location. In examining the center's location, look for answers to questions such as these:

Can you hold old customers and attract new ones?

Would the center offer the best sales volume potential for your kind of merchandise?

Can you benefit enough from the center's access to a market? If so, can you produce the appeal that will make the center's customers come to your store?

Can you deal with your logical competition?

To help answer such questions, you need to check out: (1) the trade area and its growth prospects; (2) the general income level in the trade area; (3) the number of households; and (4) the share of various age groups in the population. (If your line is clothes for young women, for example, you would not want to locate in a center whose market area contains a high percentage of retired persons.).

Make your own analysis of the market which the developer expects to reach. In this respect, money for professional help is well spent, especially when the research indicates that the center is not right for your type of operation.

Your Space. Determine where your space will be. Your location in the center is important. Do you need to be in the main flow of customers as they pass between the stores with the greatest customer pull? Who will be your neighbors? What will be their effect on your sales?

How much space is also important. Using your experience, you can determine the amount of space you will need to handle the sales volume you expect to have in the shopping center. And, of course, the amount of space will determine your rent. Many merchants need to rethink their space requirements when locating in a shopping center. Rents are typically much higher and, therefore, space must be used very efficiently.

"Total Rent" In most non-shopping center locations rent is a fixed amount which has no relationship to sales volume. In shopping centers the "rent" is usually stated as a minimum guaranteed rent per square foot of leased area against a percentage. Typically, while this is between 5 and 7 percent of gross sales, it varies by type of business and other factors. This means that if the rents as calculated by the percentage of sales is higher than the guaranteed rent, the higher amount is the rent. If it is lower than the guaranteed rent, then the guaranteed rent is the amount paid.

But this guarantee is not the end. In addition, you may have to pay dues to the center's merchant association. You may have to pay for maintenance of common areas. Consider your rent, then, in terms of "total rent." If, and when, this "total rent" is more than your present rent, your space in the center, of course, will have to draw sales enough to justify the added cost.

FINISHING OUT. Generally, the owner furnishes the bare space. You do the "finishing out" at your own expense. In completing your store to suite your needs, you pay for light fixtures, counters, shelves, painting, floor coverings. In addition, you may have to install your own heating and cooling units. (Your lease should be long enough to pay out your "finishing out" expense.)

An innovation is the "tenant allowance." By this system, landloards provide a cost allowance towards completion of space. It is for store fronts, ceiling treatment, and wall coverings. The allowance is a percentage of their cost and is spelled out in a dollar amount in the lease.

Some developers help tenants plan store fronts, exterior signs, and interior color schemes. They provide this service to insure store fronts that add to the center's image rather than subtracting from it.

Types of Shopping Centers

Because each planned shopping center is built around a major tenant, centers are classed, in part, according to this leading tenant. According to tenant makeup and size, there

READEX FICHE

are three types: neighborhood, community, and regional.

Neighborhood. The supermarket or the drugstore is the leading tenant in a neighborhood center. This type is th smallest in size among shopping centers. It caters to the convenience needs of a neighborhood.

Community. Variety, junior department stores, or discount department stores lead in the next bigger type - the community center. Here, you find room also for more specialty shops, need for wider price ranges, for greater style assortments, and for more impulse-sale items. In recent years the community center has also been designed around the home improvement department store which combine hardware, lumber, electrical, plumbing, flooring building materials, garden supplies, and a variety of other goods under one roof. The shops that are grouped around this type of anchor tend to be similar in character and may include custom kitchen and bath shops, upholstery, bedding, drapery, and other such shops. While this type of center tends to meet the Community Shopping Center definition as to floor area and site size, its market may be more like a regional center.

Regional. The department store, with its prestige, is the leader in the regional center - the largest type of shopping center. When you find that a second or third department store is also locating in such a center, you will know the si has been selected to draw from the widest possible marke area. Super-Regional centers have been developed with a many as 5 department stores. You will find, too, that the smaller tenants are picked to offer a range of goods and se vices approaching the appeal once found only downtown

Copies of this Aid are available free from SBA, P.O. Box 15434, Fo
be altered to imply approval by SBA of any private organization, p
Use of funds for printing this publication has been approved by the

The latest development in regional shopping centers is the enclosed mall. This type of center is designed to shut out the weather and to serve a larger trade area than other regional centers. Customers enjoy the open store fronts, the easy entrance, and the "all-weather" shopping. Tenants enjoy more center-wide promotions because of weather control.

An enclosed air-conditioned mall enables you to merchandise the full width of your store. The whole store becomes a display area, eliminating window backing and expensive display settings. You can rely on sliding doors or an overhead open drop grill for locking up the store.

If you are considering a mall, you should weigh the benefits against costs. At the outset, it may be difficult to measure savings, such as the elimination of store fronts, against costs, for example the cost for heating and air-conditioning in the enclosed mall.

Specialty Theme Shopping Centers. In addition to the three major categories of shopping centers new types of centers are evolving that have been called specialty or theme centers. In general these centers do not have a major anchor tenant. There is a greater percentage of restaurants and specialty food stores, the other stores tend to be highly specialized with more imported goods, custom crafted goods, designer clothes etc. Also a greater number of the merchants are independents. Unusual and interesting architectural design is a normal characteristic and frequently a tourist market rather than a resident market exists.

Worth, TX 76119. Aids may be condensed or reproduced. They may not duct, or service. If material is reused, credit to SBA will be appreciated. Director of the Office of Management and Budget, through June 30, 1985.